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How Managers Think: Why the Mediated Model Makes Sense

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Just when I was reading Murphy's article on performance ratings (Murphy, 2008), I was also reading an interesting new book *How Doctors Think* by Jerome Groopman (2007). I was struck by the parallels. Groopman was describing how physicians struggle with premature closure, recall bias, affective errors, and other diagnostic mistakes as they make day-to-day judgments that impact people's lives. Managers suffer the same as they think and act on a day-to-day basis. This commentary aims to highlight some of the ways Murphy's observations and specific features of the mediated model relate to our human resources (HR) processes and strategies.

We as HR practitioners at Walgreens have had some success and have encountered some struggles as we design performance rating schemes, build electronic forms, and design process workflows requiring managers to rate performance. The goals are to develop the Walgreens talent pool, ensure performance feedback, administer merit pay, and bolster the defensibility of our HR transactions. Like Murphy says, we cannot avoid it. We have got to do something. Performance reviews are, for better or worse, part of the puzzle. Thinking about *how managers think* may help direct research activities and lead to more effective strategies for organizations.

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By way of background, Walgreens operates a chain of retail drug stores. We currently have more than 6,000 stores in 49 states with 220,000 employees. We have well-established performance appraisal programs in place with good executive support. Each year we administer more than 45,000 performance reviews for managers and pharmacists using electronic review forms tailormade to the individual jobs. Our systems tie together so that a performance rating can and does influence other HR processes and transactions. The experiences described below are not intended to say that the single-factor model or the multifactor model is wrong. Rather, the following illustrates how the mediated model is very useful in guiding our thinking about performance ratings.

Calibration Meetings

Murphy alludes to the many extraneous influences that line managers may feel when completing performance ratings. Some of these factors are business realities. In a high-growth company like ours, boss–subordinate pairings change rapidly. So shaping a "strong" or "tough" image for the new boss might seem to make sense. Also, in our industry, like many others, labor shortages are real and can significantly impact revenue in certain markets. So perhaps a lenient performance rating given to a key employee is thought to enhance retention. As one remedy, formal calibration meetings (called HR Planning meetings) have evolved as an important means to mitigate the weak

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relationship between performance and ratings. At these meetings, a line executive along with an HR professional serving as a facilitator will review individual ratings with the evaluator, discuss discrepancies, and tabulate rating distributions vis-à-vis chain-wide guidelines. As Murphy suggests, social influence skills are at play during these planning meetings. A trained "neutral" facilitator can assist in the management of these extraneous factors. These meetings are very time consuming, but they are vital.

Performance Dimensions—The Frame of Reference

In a retail operation, there are a wide variety of objective performance measures for the store. Sales growth, inventory, days of supply, computerized records of customer complaints, mystery-shop scores, cash handling, and many other key performance indicators (KPIs) are at the manager's and executive's disposal; and these measures are routinely referenced by all. Furthermore, for a store manager, there is very clear accountability. It is his/her store! This would seem to ensure a strong relationship between ratings and actual performance. The challenge is that most of the time, these KPI systems are measuring the store—not the person. The relationship is weakened when a rating manager is intending to give constructive performance feedback on behaviors when all the store financial indicators are essentially clouding the issue. In other words, a store manager might rightly say to his/her rater, "My KPIs show that I've got the best inventory turns in the market . . . how can you rate me down in delegation skills?" The ratee's perception is that the rating should be more positive; and the pressure is on the rating manager to raise the performance ratings.

The calibration process mentioned above helps sort this out, but other remedies are in place as well. Performance rating forms have evolved so that subscales are categorized into "hard" job-specific performance goals and "soft" development-focused competencies. So as the mediation model acknowledges, the rating manager can consciously shape the feedback by varying the hard measures (with an absolute reference) and soft measures (with a relative reference) appropriately for the individual employee. If his/her motive is to develop skills, this design of the performance review scales allows it without totally sacrificing the relationship between overall ratings and performance. Building rating scales is an ongoing struggle; and systematic job analyses continue. However, rather than let these kinds of apparent inconsistencies simply contribute to the "rater random error," I believe that we have conceptualized the process in accord with the mediated model idea to create a workable solution.

Mixed Goals

As the above example suggests, a performance rating system in all likelihood must confront the problem that Meyer, Kay, and French (1965) describe as inconsistent or conflicting goals of the process. Our primary intent is skill development, but the process must support a reward system, a promotion system, and/or a merit pay system in a fair and equitable manner. The calibration meetings mentioned above are designed with performance development as the primary focus. Pay raises are administered at a different time of the year, thereby alleviating some of the mediating pressures that may influence the performance ratings. Also, a significant portion of a store manager's compensation is the annual store bonus that is determined by a strict financial calculation based on operating results. Again, the impact is to give the performance evaluator freedom to make accurate ratings independent of the pressure caused by impacting a subordinate's pay. These HR process designs may help, but we suspect that we have not completely eliminated the problem. We probably never will.

At Walgreens, hourly employees in the store do not receive merit pay increases. As a pilot effort, we have tried to solve this problem by simply avoiding it. In other words, in this experiment, managers simply rate the employees' job behavior/skills without establishing an overall performance

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score. Thus, by design, the focus is on intraperson variability. The goal here is to direct the employee's attention to the specific skills that could be improved rather than to provide an absolute judgment that labels the person and drives subsequent HR decisions. This review process design mitigates the mediating influences associated with mixed goals. We need to study the success of this approach.

Self-Appraisals

Performance rating systems serve the important function of setting expectations with employees. Managers are encouraged to carefully craft a credible message for the employee so that there is perceived fairness within the organization and so that realistic job or career goals can be set. Because of this, Walgreens has devoted significant effort (and anxiety) to the process by which the performance ratings are communicated to the employee. Internal surveys have shown us that 20% of employees never receive their ratings; and we were expecting this to be a much larger percentage. Electronic tracking and compliance-related systems are now in place to assist. However, the true goal is communication—to really send the message about performance. One way to involve employees in this process has been through the use of self-reviews. By participating in this way, employees can learn about their job standards and can develop some level of buy-in to the process. At the same time, it is one additional mediating factor in that the rating manager feels compelled to take the employee's self-ratings into account. We are studying whether or not the rating manager should see the self-ratings. Also, we can study the degree of agreement between the "boss" ratings and the "self" ratings to get some sense of whether there is any real communication going on. Across the past 2 years, we have had stability in our rating forms and systems; and we have been able to correlate the boss ratings from Year 1 with the self-ratings of Year 2. If the correlations are high, we can assume that the message was processed. We isolated those managers who were in the same store and had the same boss for two straight years. We found an average correlation of .40 for the store manager audience ($n = 3{,}850$). The average was slightly lower (.35, $n = 379$) for the group that switched stores and managers. I guess we should be somewhat encouraged.

Conclusions

We continue to struggle with the likely weak relationships between the performance and the ratings of performance. We have tried and continue to tweak the performance appraisal "words," the "scales," and the "forms." Electronic systems have helped—we think! At the end of the day, we really do not know how effective these practices are. We have tried to focus on how managers *think*. As practitioners, we encourage taking a process approach, thinking about the interrelationships between all the HR transactions, and facilitate the executive oversight process. As Groopman (2007) concluded his book about physicians, he gave some good advice for managers as well. He said to "mix the science with a lot of soul."

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